

ECONOMIC COMPETITIVENESS
PROMOTING AMERICA'S LIVING STANDARD

THE SENATE DEMOCRATIC WORKING GROUP
ON ECONOMIC COMPETITIVENESS

OF THE

DEMOCRATIC POLICY COMMITTEE

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Senator John F. Kerry of Massachusetts
Senator Carl Levin of Michigan
Senator Spark M. Matsunaga of Hawaii
Senator Daniel Patrick Moynihan of New York
Senator Donald W. Riegle, Jr. of Michigan
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Senator Robert C. Byrd of West Virginia (Ex Officio)



SEPTEMBER 1986

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1986

50-442 D

5440-1

(II)

United States Senate

WASHINGTON, D.C. 20540

September 10, 1986

The Honorable Robert C. Byrd
Chairman
Senate Democratic Policy Committee
United States Senate
Washington, D.C. 20540

Dear Robert:

The Senate Democratic Working Group on Economic Competitiveness, which you created in December 1985, is pleased to submit herewith its Report. While appreciating the importance of trade law and trade practices, we have confined ourselves to an extensive investigation of the domestic causes of slow economic growth, increasing debt, and declining American living standards.

The Working Group conducted numerous working sessions with leading experts in business, labor and academia to discuss the changing dynamics of the international economy, technology and demographics. Emerging from this work was the clear and disturbing picture of a U.S. economy unsuited to growth and leadership in today's highly competitive, technologically sophisticated world economy. In order to develop a consensus legislative package, we then held a similar series of working sessions organized around 116 policy recommendations of 21 major recent studies of competitiveness.

Our Report, "Economic Competitiveness: Promoting America's Living Standard," presents both a concise statement of the grave economic challenge facing America and a positive, do-able legislative package to begin to productively address that challenge. We thank you for your support and look forward to continuing to work with you on competitiveness issues, so vital to the economic security of all Americans.

Sincerely,

John Dingell
John Dingell, Chairman

Max Baucus
Max Baucus

Tom F. Lundy
Tom F. Lundy

Bob Kerry
Bob Kerry

Carl Levin
Carl Levin

Spark M. Matsunaga
Spark M. Matsunaga

Daniel P. Moynihan
Daniel P. Moynihan

Don W. Riegle, Jr.
Don W. Riegle, Jr.

John D. Rockefeller, IV
John D. Rockefeller, IV

(IV)

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ECONOMIC COMPETITIVENESS PROMOTING AMERICA'S LIVING STANDARD

The Senate Democratic Working Group on Economic Competitiveness—September 1986

EXECUTIVE SUMMARY

THE CHALLENGE OF COMPETITIVENESS

Being competitive for a nation in today's world means being able to earn—not borrow—a rising standard of living for its citizens. It means maintaining the productive ability to assure sustained economic growth and security into the future. New technologies and successful economic development strategies abroad have created a fundamentally new and highly competitive challenge for the U.S. The President's Commission on Industrial Competitiveness found that "our ability to compete is eroding," threatening our world leadership and our standard of living. It said that this "New Reality" requires that competitiveness become the economic agenda for America for the next decade. Unfortunately, this and many other calls for urgent action have been ignored. Therefore, U.S. living standards continue to decline. We continue to accumulate massive debt and our productive capacity continues to erode.

Ten Major Aspects of U.S. Competitive Decline:

1. Weekly Earnings: On average, in real terms, are now below 1963 levels;
2. Unemployment Rates: Are trending upward;
3. GNP Growth: Is decelerating from 4 percent in 1950-1960s, to 2.8 percent in 1970s and only 2 percent in 1980s;
4. Federal Debt: Is growing six times faster than GNP and now equals more than 50% of GNP;
5. Total Debt: Business, consumer and government debt are at post 1920s highs—the total now equals almost twice GNP;
6. International Debt: The U.S. became a debtor nation in 1985, is now the world's largest debtor, could owe more than all of Latin America combined by 1988;
7. Merchandise Trade Deficit: Is larger than the GNP of 169 of the 179 countries with which we trade;
8. Services Trade Deficit: Traded services deficits will soon be joined by enormous outflows to service U.S. foreign debt;
9. Investment and Productivity: Are decelerating and are only a fraction of foreign growth rates; and
10. Educational Excellence: In competition with students from other developed nations, Americans score near the bottom.

AN ACTION AGENDA

MAKING COMPETITIVENESS THE NATIONAL PRIORITY

By far, the action most urgently needed is for the U.S. to acknowledge the competitiveness challenge and to make competitiveness the national priority. While most Americans are uneasy about their jobs, the economy and their children's future, they have been confused by the constant barrage of confident, complacent rhetoric by the Republican Administration. Firms are being forced to export jobs abroad, the middle class standard of living is declining, and Americans are not learning the new skills they need to compete. Opportunities are being lost; debts are accumulating. But the Republican message is more of the same, business as usual.

Democrats have always been the party of economic growth. And the key to economic growth and prosperity in today's international economy is to be competitive. As long as the nation remains confused about whether or not a competitiveness challenge exists, Democrats must keep the nation's attention focused on that challenge. We must also present a vision of what is required to meet the challenge.

TRADE AND EXCHANGE RATES

For too long competitiveness has been discussed strictly in terms of trade and exchange rates. Certainly it is important that the U.S. and our trading partners play by the same rules. American workers and firms cannot be expected to suffer indefinitely at the hands of a naive Republican policy that pretends foreign governments and firms are always free traders or will become so if we ask them politely. In fact very little world trade is free, and foreign interests are reluctant to change their self-serving behavior unless we are willing to act to bring about change.

Senate Democrats have long sought a comprehensive trade policy to avoid the ad-hoc protectionism of the Administration. We have introduced numerous such bills, and a year ago several Democrats and Republicans drafted bi-partisan omnibus legislation. The House of Representatives has recently passed such a bill. Yet the Republican majority in the Senate refuses to act. We urge Senate Republicans to join us to send a comprehensive, fair trade reform bill to the President this year.

Our declining ability to compete has also been blamed on the strong dollar. Certainly, at some extremely weak exchange rate, the U.S. trade deficit would be eliminated. Three years of Democratic initiative to persuade the Administration to act on the exchange rate was finally rewarded this past year by the efforts of Treasury Secretary Jim Baker. We urge continued such efforts from the Administration. Unfortunately, a weak dollar drastically undercuts the U.S. living standard and our ability to exercise economic leadership. A more realistic and stable exchange rate, while necessary, will not make us more competitive—in many ways it will only make the challenge more immediate.

PRODUCTIVITY GROWTH: THE CENTRAL CHALLENGE OF COMPETITIVENESS

Our central competitive challenge is to strengthen our economy to the point where we can sustain a strong dollar and raise living standards. This calls for a renewed national focus and a commitment to productivity growth.

Much of the innovation America needs will come from the unmatched, diverse ingenuity, talents and muscle of each individual citizen and firm. Public policy's role is to support private initiatives. The federal government can provide information about technological developments of foreign competitors. It can support excellence in U.S. technology and education. And it can encourage a more mobile workforce. We must also create a single independent body that can cut through the governmental bureaucracy and can help bring those traditional adversaries—management and labor—together to address the competitiveness challenge.

Democrats believe that valuable time and opportunities have been wasted in fruitless searches for a single, sweeping solution to the competitiveness challenge. The time has come for doable action. Most of the legislation we are introducing has been recommended time and again by panels of leaders from business, labor, academia and government. But it has been ignored.

There is much to be done. The legislation we recommend will help cast the competitiveness challenge in the proper perspective. It will take us through the first essential steps toward meeting that challenge and assuring our future economic growth.

ESSENTIAL FIRST STEPS

I. INFORMATION ON FOREIGN TECHNOLOGIES

We must provide better and much more broadly disseminated information on the rapid changes in technologies occurring abroad:

- A. Establish within the U.S. Patent Office a new Office of Technology Assessment, Forecast and Outreach.
- B. Establish within the Department of Commerce a new on-site function for monitoring developments in foreign science and technology.

II. TECHNOLOGICAL EXCELLENCE

We must support excellence in the development of U.S. technology:

- A. Expand and diversify the engineering research centers of the National Science Foundation.
- B. Establish an economic competitiveness program to grant 500 graduate fellowships in science and engineering.
- C. Establish a fund to assist America's colleges and universities rebuild their R&D infrastructures.

III. EDUCATIONAL IMPROVEMENT

We must strive for excellence in education and training:

- A. Establish a graduate fellowship program for teacher training.

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B. Expand Federal funding to develop and disseminate quality instructional software and video technologies, and train teachers to use them.

IV. WORKFORCE MOBILITY

We must encourage participation and mobility of the workforce:

A. Provide the States with additional resources to help the unemployed to become fully productive members of society.

B. Provide the Department of Labor with sufficient funding to fully implement a nationwide computerized job bank.

C. Examine the merits and the costs of initiating a personal portable pension for all Americans.

V. FORUM FOR NATIONAL CONSENSUS BUILDING

We must create a single independent body to provide an on-going forum for national leadership and cooperation to address the competitiveness challenge.

Establish a National Council on Industrial Competitiveness to:

A. Collect and analyze data about current and future economic trends and market opportunities.

B. Monitor the changing nature of the United States economy and its international competitive capacity.

C. Create a forum where national leaders in business, labor, academia, public interest groups, and Government will identify national economic problems, develop recommendations to address such problems, and create a broad public consensus to support the recommendations.

D. Develop and promote a national vision and specific policies which enhance U.S. productivity.

E. Assess private sector requests for governmental assistance or relief, and to recommend any reciprocal actions or conditions of such assistance or relief.

F. Establish industry subcouncils of public and private leaders to develop similar long-term forecasts and visions for sectors of the economy.

G. Review legislative and executive policies which affect national economic competitiveness.

H. Report annually to the President and Congress on ways to increase American competitiveness in world markets.

I. Examine all international agreements on foreign trade agreed to by the United States monitoring the effect of imports on U.S. industries.

These initiatives will arm Americans with the tools they need to keep the country competitive. But they do have a cost—about \$525 million per year. The return on the investment, however, will pay for itself many times over. It will increase economic growth, save jobs and help to maintain and improve American living standards.

Our economic future is at risk. We cannot afford the continuing decline in our living standard, the massive accumulation of debt, and the further erosion of our competitive vitality. Americans must unite to meet the new realities of international competitiveness. Our future economic well-being demands it.

PART ONE: THE SENATE DEMOCRATIC WORKING GROUP ON ECONOMIC COMPETITIVENESS

INTRODUCTION

Being competitive for a nation in today's world means being able to earn—not borrow—a rising standard of living for its citizens. It means maintaining the productive ability to assure sustained economic growth and security into the future. New technologies and successful economic development strategies abroad have created a fundamentally new and highly competitive challenge for the U.S.

Three years ago the President's Commission on Industrial Competitiveness was established to assess and review means of increasing American economic competitiveness. The Commission unanimously found that U.S. "ability to compete in world markets is eroding." Echoing the persistent call of the prestigious Business-Higher Education Forum, the Commission urged that "Americans must take on the challenge of competitiveness as the economic agenda for the next decade."

Indeed, in recent years, more than two dozen blue-ribbon panels of prominent men and women from business, labor, academia and government have examined America's ability to compete in international markets and sustain our living standard. These panels have found enormous erosion of American economic strength. The consistency of the findings from such diverse individuals and groups leaves little doubt that we now face a serious international challenge.

Nor can there be any doubt that the U.S. has yet to adequately begin to respond to this challenge. Opportunities are being lost. Living standards are declining and debts are accumulating even as we inadequately invest for our future economic security.

The activity of the Senate Democratic Working Group represents a continuation of Democratic efforts in recent years to address this competitive challenge. The House Democratic Caucus issued a comprehensive strategy, "Rebuilding the Road to Opportunity" and "Renewing America's Promise" in 1983, and "Competing for the Future" in 1984. Senate Democrats issued "Jobs for the future" in 1983, and "The New Global Economy: First Steps in a United States Trade Strategy," in 1985.

Senate Democratic Leader Robert Byrd early this year established the Working Group on Economic Competitiveness. We have met with many experts in business, labor and academia to discuss changes in the international economy, technology and demographics, and how these changes affect the jobs and living standards of Americans. A similar series of discussions was then organized around 116 policy recommendations of 21 major recent studies of competitiveness.

Emerging from this work is the clear and disturbing picture of a U.S. economy unsuited to growth and leadership in today's highly competitive, technologically sophisticated world economy. Yet as the President's Commission points out, there has been no single event—such as Sputnik in an earlier challenge—to galvanize public concern and drive forceful action. Indeed, the current Administration has been committed to, and highly successful in, diverting attention from this national challenge, focusing instead on the misleading rhetoric of misplaced confidence and complacency.

Many Americans have been confused by the rhetoric from this Administration. They must become convinced that the foreign economic challenge we face is real before they will support bold new policy initiatives.

In this report, the Working Group attempts to articulate the depth and breadth of the competitiveness challenge now threatening the U.S. standard of living. There is no quick or easy solution to this challenge and it becomes more difficult and intractable the longer it is ignored. There are three broad areas where action, or continued action, is needed: 1. trade policy, 2. exchange rates and especially, 3. productivity growth.

Even with the U.S. trade deficit now larger than the GNP of 169 of the 179 countries with which we trade, the Administration and Senate Republicans continue to ignore the need for a comprehensive trade policy. The long-standing Democratic call for such a policy was echoed by the President's Commission on Industrial Competitiveness. In 1985, Senate Democrats introduced a comprehensive trade bill. Democrats then worked with Republicans to draft a bi-partisan bill. A year has passed without action by the Republican majority. We urge Senate Republicans to join us to send a comprehensive trade bill to the President this year.

Three years of Democratic work to persuade the Administration to take action on the exchange rate has been rewarded this past year with the efforts of Treasury Secretary Jim Baker. In view of the enormous U.S. trade deficits of recent years, it is evident that our economy cannot now sustain a strong dollar. We fully support the Secretary's exchange rate initiative and urge greater cooperation from the State Department, the White House and elsewhere within the Republican Administration.

A weaker dollar will eventually reduce our trade deficit and our foreign borrowing, but it will also reduce our standard of living and our capacity to serve as the locomotive for world growth. The central competitive challenge is to strengthen our economy to the point where we can sustain a strong dollar and improve our living standards. This requires a renewed national commitment and investment in productivity growth. U.S. productivity growth has lagged far behind that of all our major competitors, and has declined further in recent years. Our productivity growth in the economic recovery since 1982 has been the weakest of any post-World War II recovery.

Democrats believe the time has come for action on productivity policies that have been recommended time and again by blue-ribbon, private sector commissions. The Working Group has identified the first essential steps necessary to the long-term growth of American productivity and higher living standards. We recommend

a series of cost-effective investments in American technology and labor. And we recommend improvements in the quality of information available in making business and career decisions. Together, these proposals represent an important first step—but only a first step—in assuring all Americans of the opportunity for good jobs and a rising standard of living. We therefore support the suggestion of the White House Conference on Productivity and are proposing the creation of a permanent Council on Industrial Competitiveness to assess and further develop a consensus on important economic policy issues.

THE COMPETITIVENESS CHALLENGE

The U.S. emerged from World War II with unrivalled technological and economic might; across the oceans were devastated industries and divided nations. Many of today's popular assumptions about the U.S. and world economy have their origin in that unique time. The U.S. supplied both a military and an economic umbrella for the rapid and successful post-war recovery of these nations. That recovery is now long established, however. As part of that recovery or in imitation of successful models, many nations have adopted coherent and successful national economic strategies. We must recognize this new reality and the more difficult challenge it presents us in sustaining our economic growth and prosperity for ourselves and the world.

THE DECLINING STANDARD OF LIVING

The primary measure of the success or failure of an economy is its ability to deliver a rising standard of living to all its citizens. By this standard, the American economy is performing very badly. While the U.S. has created 30 million jobs in the past 20 years, unemployment rates have risen steadily (Chart 1). This has been particularly devastating for blacks, Hispanics and Native Americans who have suffered an even more rapid rise in unemployment.

Chart 1—Average unemployment rates under recent American Presidents

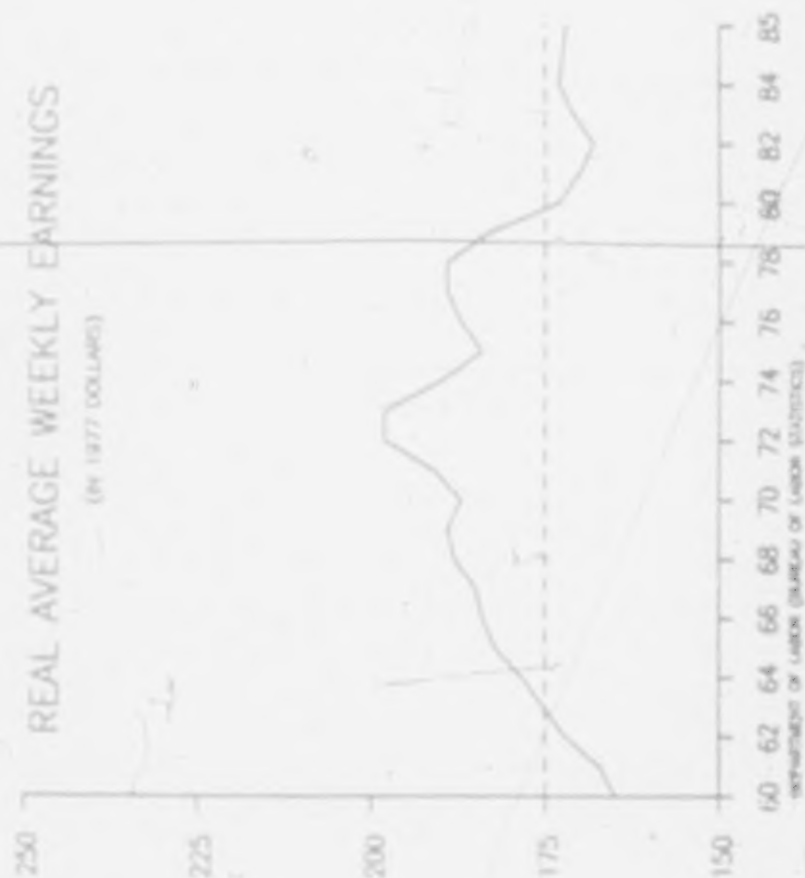
	Percent
Truman (1945-52)	4.2
Eisenhower (1953-60)	4.9
Kennedy/Johnson (1961-68)	4.9
Nixon/Ford (1969-76)	5.8
Carter (1977-80)	6.5
Reagan (1981-85)	8.2

Not only has unemployment been rising among Americans, but the average weekly earnings of all American workers has actually declined for the past 12 years and is now below its 1963 level. (Chart 2)

CHART 2

REAL AVERAGE WEEKLY EARNINGS

(IN 1977 DOLLARS)



There is increasing evidence that these average earnings figures mask an even more rapidly growing disparity in the distribution of earnings. The Bureau of Labor Statistics reports that of jobs added from January, 1980, through May, 1986, 30.5 percent were in retail trade; 58.9 percent were in a category called miscellaneous services, which includes hotels and motels and business and health services.

The average annual wage in retail trade is \$9,063. This is less than 58 percent of the average wage for all workers, and well below the poverty level of \$10,990 for a family of four. The average annual wage for miscellaneous services is \$13,647—13 percent below the average wage for all workers. This means that 89.4 percent of new jobs since 1980 have been in occupations where all wages—not just entry level—are an average of 23 percent below the national average for 1962. Increasingly, even families with two or more wage earners are finding their budgets squeezed and that they have little or no savings.

The fundamental challenge of economic competitiveness is to reverse the decline and to foster improvement in the standard of living for all Americans.

Yet even in decline, average wages and living standards in the U.S. are still very far above those in most of the world. Comparable wage rates in most of the newly industrializing countries such as S. Korea, Taiwan, Brazil and Mexico are only 10-20 percent of U.S. rates. Wages in China and other rapidly modernizing countries are as low as 16 cents an hour. Many of the other essential factors of the American living standard and affluent consumer market (social security, health and safety standards, environmental concerns) make the U.S. an even less competitive economic structure in which to employ workers and to produce.

How can American small businesses and workers successfully compete, and how can multinational corporations justify employment and production in the U.S.? In the highly competitive global economy, there is at least the appearance of a strong incentive for most production to be transferred abroad. For the individual firm, the technical capabilities now exist to transfer state-of-the-art product and process technology, capital and managerial expertise virtually anywhere in the world in a matter of minutes or hours.

Many of America's leading firms are being forced to become more competitive by sourcing or producing abroad for sale in the U.S. Half of international trade today is intra-firm—that is between U.S. and foreign affiliates of the same company. Certainly our national well-being is directly tied to the productivity and international competitiveness of our firms and industries. But there are important differences between our national economic interests and interests of individual firms.

ECONOMIC GROWTH AND NATIONAL DEBT

Real, annual GNP growth in the U.S. averaged 4.0 percent throughout the 1950s and 1960s, only 2.8 percent in the 1970s, and 2.0 percent thus far in the 1980s. Democrats, who have always been the party of economic growth, recognize that renewed growth is essential to restoring and improving our standard of living and economic security.

CHART 3—Real GNP growth under recent U.S. Presidents

[In percent]

Democrats		Republicans	
Carter	3.1	Reagan	2.4
Kennedy/Johnson	4.5	Nixon/Ford	2.8
Truman	5.7	Eisenhower	2.4

Traditional monetary and fiscal policy tools have proven necessary but no longer adequate to assure sufficient economic growth. As Chart 4 demonstrates, except for the Carter years, monetary growth has been generally accommodative in recent years. And even before the explicitly borrow-and-spend policies of Reaganomics, the fiscal policy trend was highly stimulative (Chart 5). Since 1981, the budget deficit has grown six times faster than GNP, with the national debt rising from 34 percent to now over 50 percent of GNP. In dollar terms, over the past five years the budget deficit and GNP have each grown by \$1 trillion. Arguably, we have borrowed our entire GNP growth for five years.

CHART 4

REAL MONEY SUPPLY GROWTH

(yearly average growth)

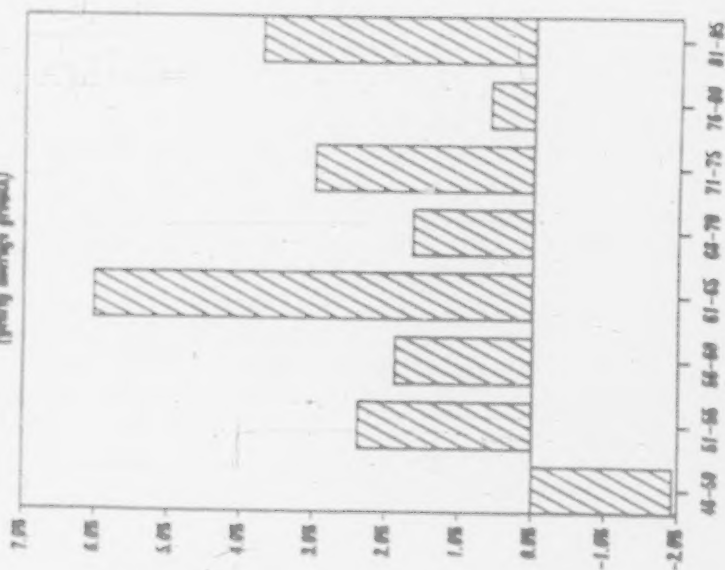
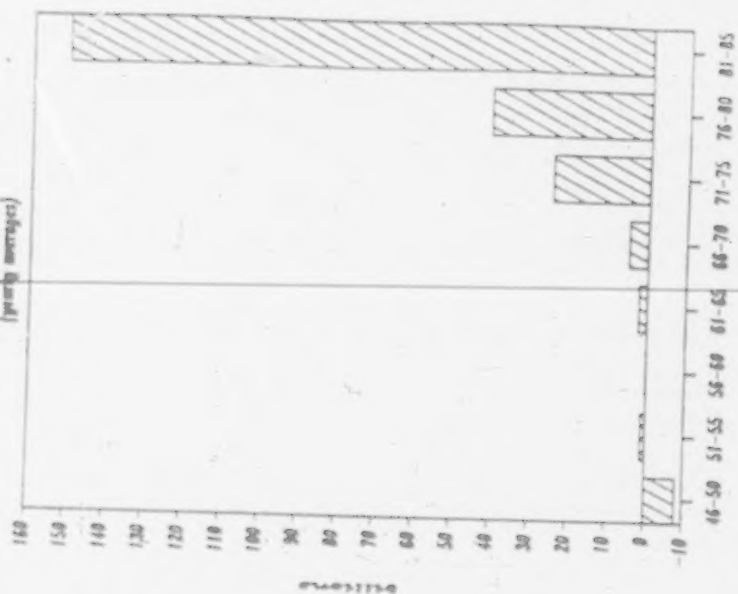


CHART 5

INCREASE IN FEDERAL DEBT

(yearly average)



This fiscal trend has become clearly unsustainable. By preventing the development of a competitive strategy for national economic growth, the Reagan Administration has instead attempted to limit the policy choices to raising taxes or cutting needed public services at a time of slow growth and a broad decline in living standards.

TRADE DECLINE

Today's global economy is altogether different from that of the past. Additional demand in the U.S. no longer necessarily requires additional production in the U.S., as our current trade deficit of more than \$14 billion per month demonstrates. Everything else being equal, the trade deficit more than halved U.S. GNP for 1985—from a healthy 5.8 percent with a balanced trade account to the sluggish 2.7 percent which we actually experienced. Growth in the second quarter of 1986 could have been 4.7 percent—rather than the actual 0.6 percent—with a balanced trade account. Estimates of "good" jobs lost—those which pay above our national average—due to the trade deficit range from 2 to 4 million.

Trade, both imports and exports, now accounts for more than 14 percent of U.S. GNP. One of every five dollars of U.S. manufacturing output is shipped abroad, along with roughly 30 percent of U.S. grain production. It is estimated that 75 percent of U.S. production is now exposed to international competition. U.S. workers and firms have been losing and losing badly in the international competition for jobs and market share. Chart 6 illustrates the unprecedented and rapid decline in the U.S. merchandise trade balance. The U.S. Trade deficit of \$148.5 billion in 1985 was larger than the GNP of 169 of the 179 nations with which the U.S. trades.

The rapid decline in our trade balance in recent years reflects far more than U.S. dependence on imported oil (see Chart 7). The 1985 trade deficit for manufactured goods was \$112.8 billion. This represents a deficit swing of \$126.5 billion in only five years from a surplus of \$13.7 billion in 1980. Chart 8 demonstrates just how broad the decline has been in America's ability to compete. The U.S. experienced a slight 1985 trade surplus in capital goods (\$6.6 billion down from \$10.1 billion in 1984) and barely broke even with food and beverages. However, we ran deficits of \$60 billion in consumer goods, \$46 billion in automotive vehicles and parts, \$13 billion in other industrial supplies and \$48 billion in petroleum.

CHART 6

U.S. MERCHANDISE TRADE BALANCE

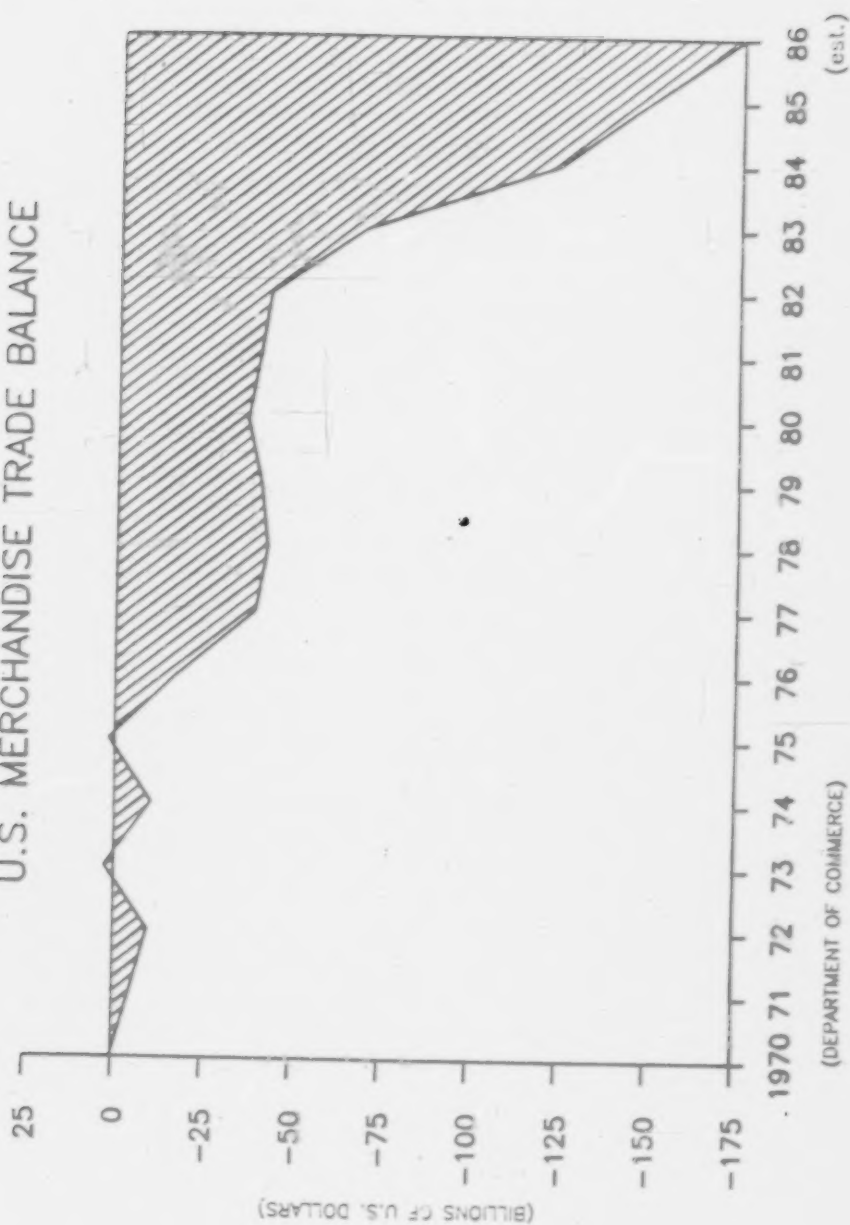


CHART 7
U.S. NON-OIL MERCHANDISE TRADE BALANCE

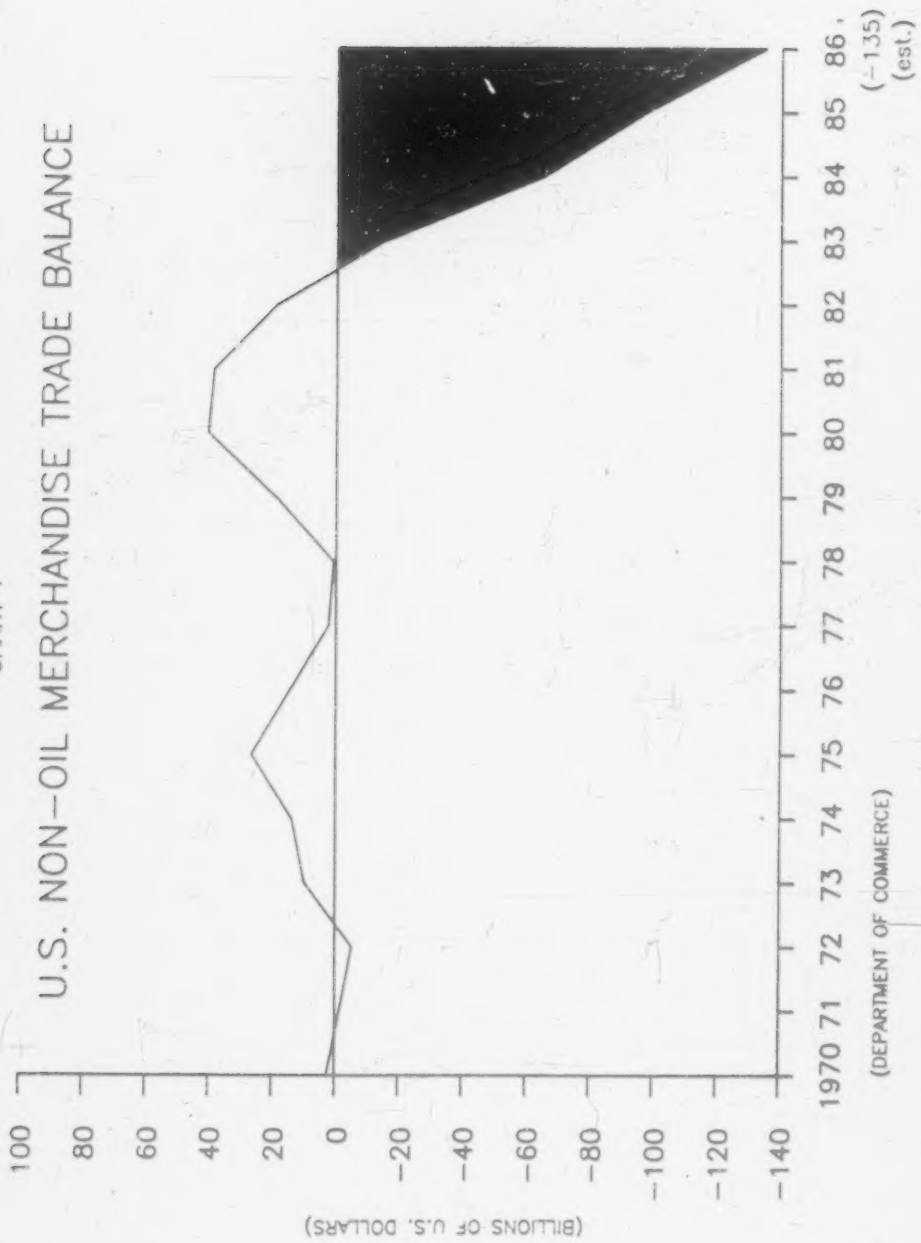
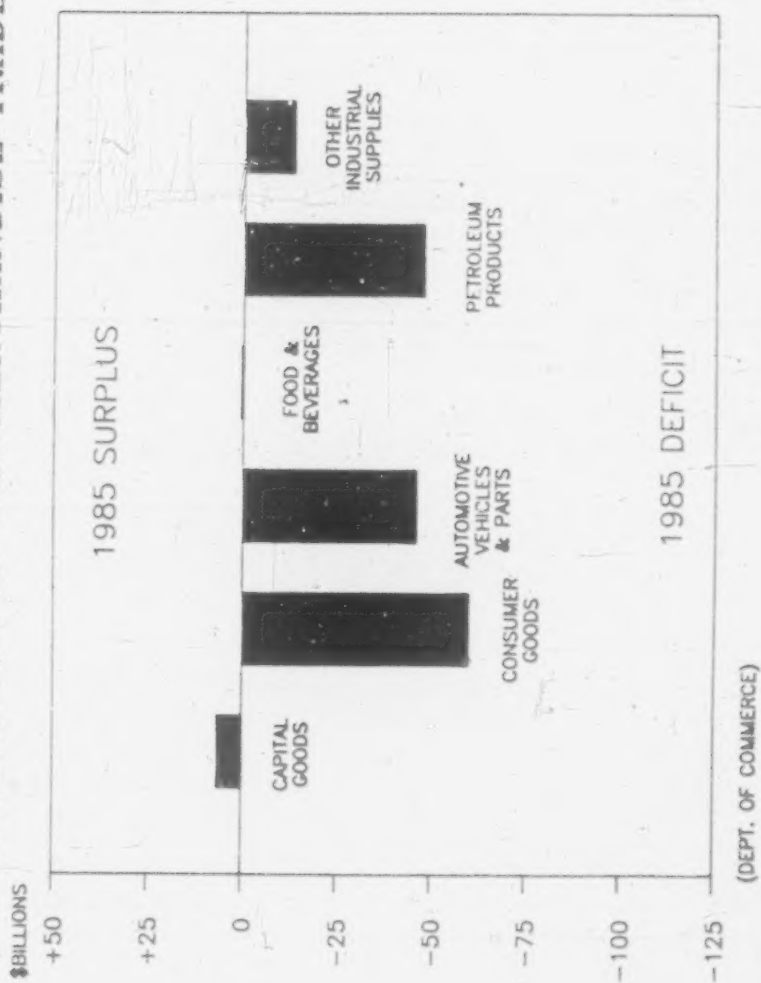


CHART B

COMPOSITION OF U.S. MERCHANDISE TRADE



U.S. exports have stagnated in recent years as imports have grown rapidly. The dollar value of U.S. exports declined by 2.2 percent in 1985, or 8.7 percent below its 1981 level. Imports, however, rose by 8.3 percent in 1985 to 32.2 percent above their 1981 level. Industry after industry, from smokestack to high tech, has been losing market share to foreign producers. The U.S. surplus in high technology trade of \$26.4 billion in 1981 was reduced to \$3.5 billion in 1985 as each product group lost substantial ground.

The National Academy of Sciences recently reported that Japanese and other foreign companies now supply "critical component" for U.S. missiles, electronic warfare devices and other advanced weapons systems. In some areas, Japanese companies have become the sole providers of high quality, low-cost key electronics materials after winning price wars with American companies. For example, the U.S. no longer has a domestic supplier of flat-zone silicone—a special kind of silicon used in fabricating high-powered electronic switching devices that are indispensable for space-based weaponry.

Foreign producers now control over 25 percent of the American market for steel and autos, 43 percent for machine tools, 64 percent for consumer electronics, and 77 percent for shoes. Even the United States agricultural trade surplus, which reached a peak of \$24.7 billion in 1981, declined to an \$8 billion surplus in 1985. In the second quarter of 1986, the U.S. actually began posting agricultural trade deficits for the first time since 1959.

Until recently, small deficits in merchandise trade could be offset by surplus in traded services and repatriated earnings from American investments abroad. This has not been the case since 1982, and since 1984 the U.S. has actually suffered a deficit in traded services excluding repatriated investment earnings. Business services, from banking and insurance to design engineering, advertising and even construction, have followed merchandise production abroad. Japan now has a greater world market share in financial services than the U.S., and the world's three largest banks are Japanese. The Japanese also have the six largest trading companies, and some analysts believe the world's largest advertising agency is Japanese. Even data entry and clerical work can now be sent profitably from the U.S. to Barbados or elsewhere. Ominously, America's customarily substantial net earnings on foreign investments will soon convert to substantial net outflows.

THE WORLD'S LARGEST DEBTOR

To pay for the deluge of foreign-made goods, the U.S. has been borrowing from abroad at a rate which would have been considered impossible even a few years ago. Last year alone, the U.S. borrowed more (\$110 billion) from foreign lenders and speculators than Brazil or Mexico have accumulated in their entire histories. Not only has the U.S. fallen from its position as the world's largest creditor—as late as 1983—but in 1985 we actually became the largest debtor in the world (See Chart 9). We may already owe more than the next two largest debtors combined, and by 1988 we could owe more than all of Latin America combined.

At its peak in 1981, the U.S. received more than \$34 billion in net income from investments abroad. This annual infusion of capital has declined rapidly in recent years. Very soon we will find the U.S. forced to be a substantial exporter of capital just to service our current foreign borrowing. At current rates, the U.S. could owe more than one-half trillion dollars to foreign interests within two years. Just to pay the annual interest on this deficit could reduce our already sluggish GNP by 2 percent. This means we must either increase our competitive production and economic growth or our standard of living will continue to stagnate and decline.

NONCOMPETITIVE PRODUCTIVITY GROWTH

Productivity growth is essential to our ability to compete in the international economy and to sustain our standard of living. With our higher cost structure, the U.S. can be competitive only when we are the most productive and innovative, the quickest to adapt to new technologies and new product markets. American productivity growth, however, has lagged far behind our major competitors (See Chart 10). Between 1950 and 1985, annual productivity growth was 5.93 percent in Japan, 4.23 percent in West Germany, and only 1.51 percent in the U.S. Most recently, between 1982 and 1985, productivity growth was 3.05 percent in Japan, 2.10 percent in West Germany, 2.8 percent in Britain, and only 0.85 percent in the U.S. Productivity growth in South Korea, Taiwan, Singapore and other newly industrializing countries has been growing even more rapidly.

The prospects for increased productivity growth in the U.S. are not encouraging. Despite massive foreign borrowing and an enormous military buildup in recent years, business investment in plant and equipment has continued to decline. Real productive investment in the U.S. has declined from an average annual growth rate of over 8.4 percent in the 1960s to barely 4 percent in the 1970s and only 2.2 percent thus far in the 1980s (See Chart 11). There have been estimates that if non-commercial, purely military-related investment could be excluded, these data would show a substantial decline in commercial investment. Even including investments for military purposes, a decline is expected for 1986.



CHART 9
U.S. NET INTERNATIONAL INVESTMENT POSITION

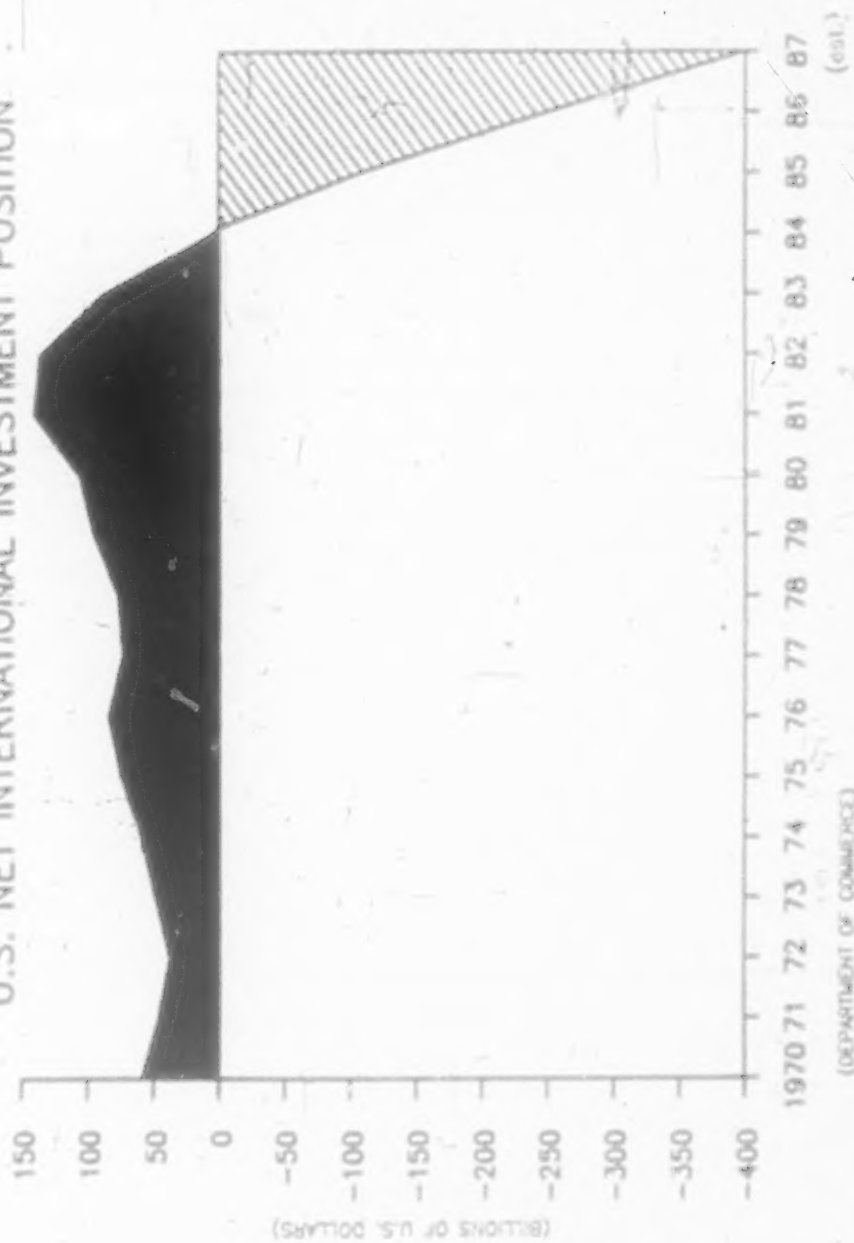


CHART 10

PRODUCTIVITY GROWTH 1950-1985 (GNP/EMPLOYMENT)

(ANNUAL %)

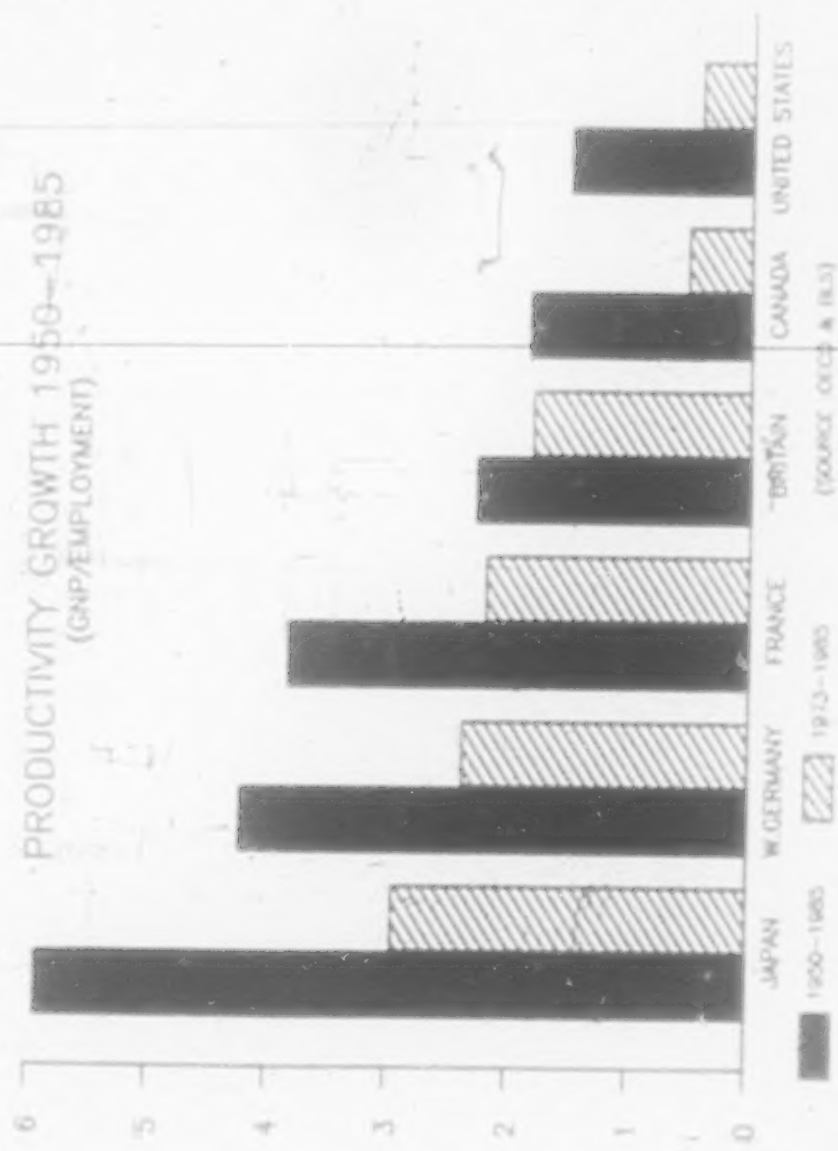
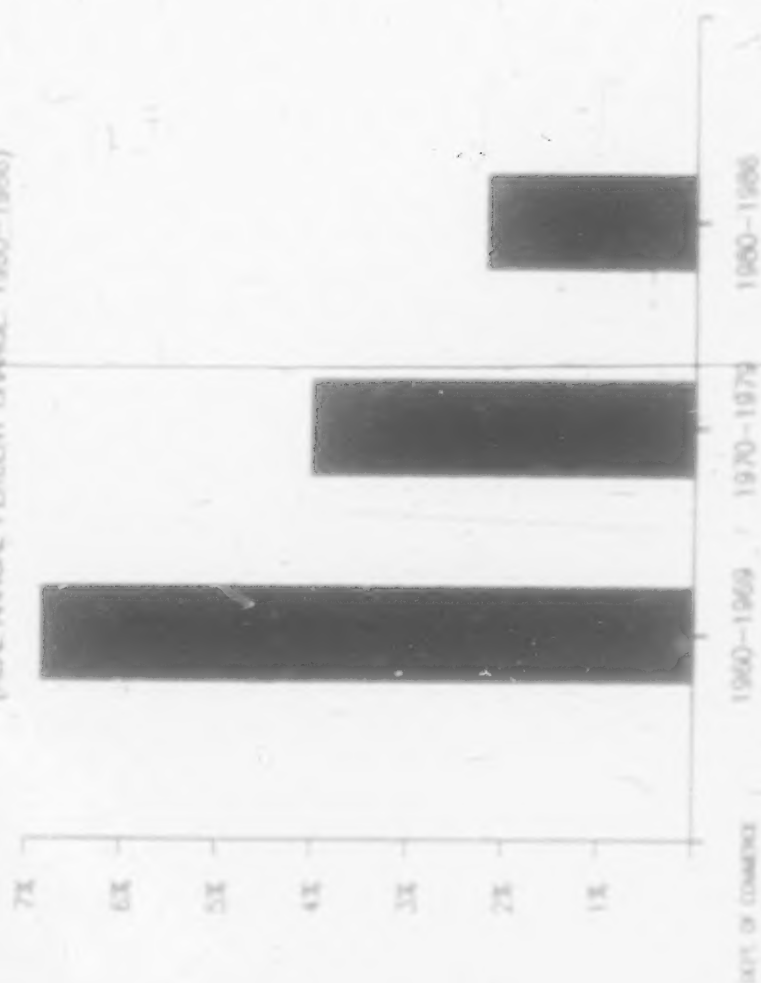


CHART 11

BUSINESS INVESTMENT PLANT & EQUIPMENT

(REAL ANNUAL PERCENT CHANGE: 1960-1986)



DECLINE IN TECHNOLOGICAL LEADERSHIP

Advances in technology have long been viewed as almost synonymous with productivity growth. New product and process technologies create new markets and are essential in sustaining our ability to compete in the global economy. The U.S. currently spends approximately as much on research and development as Japan, West Germany, France and Great Britain combined, and somewhat more than any of these as a percentage of gross national products. More than half of U.S. spending for R&D is by the federal government, however, and an increasing share (now 72 percent) goes to defense and space-related projects, which may or may not have commercial applications.

CHART 12. FEDERAL FUNDS FOR R&D

	1980	1981
1980	50	50
1981	54	48
1982	51	39
1983	54	36
1984	55	34
1985 estimate	58	32
1986 estimate	72	30

Source: National Science Foundation

The National Science Foundation estimates that West Germany invests 14 percent of its government research budget in activities directly "promoting industrial growth." Japan invests 13 percent, France 8 percent, Great Britain 4 percent, and the U.S. less than 1 percent of government R&D funds to support industrial growth.

Civilian R&D spending in the U.S., as a percent of GNP, lags far behind Japan and West Germany. Numerous new products and production technologies first developed in the U.S., such as VCRs, robotics, and computer-assisted manufacturing, have been more quickly and effectively commercialized abroad with the help of a government-business partnership that rarely exists in the U.S.

EDUCATIONAL MEDIOCRITY

"We have long taken pride in our educational system. Yet recently, the report of the National Commission on Excellence in Education, "A Nation at Risk," noted: "The educational foundations for our society are presently being eroded by a rising tide of mediocrity that threatens our very future as a nation and a people."

The results of a 17-nation education study showed American students trailing all industrialized countries except Sweden in most mathematics skills. The students were tested on arithmetic, algebra, geometry, statistics and measurement, and their scores compared to the scores of the other nations. In most areas of the study, the Americans outperformed students only from less developed countries such as Thailand, Nigeria and Swaziland. Japanese students scored the highest in all areas. The average score of U.S. students was lower than the overall average of all the participants. And even in a separate comparison taking the top five percent of

12th graders from each country, the American students finished last among industrial countries.

The percent of U.S. doctorate degrees going to foreign students has been rising steadily for many years. In 1984, 53.4 percent of all doctoral engineering degrees awarded in the U.S. were awarded to foreign students, 39 percent in mathematical sciences, 37.5 percent in computer sciences. U.S. academic exchange visas issued have risen from 67,579 in 1978 to 97,646 in 1984.

At the other end of the spectrum, an estimated 13 percent of all 17-year-olds in the U.S. are functionally illiterate. Among minority youth the number climbs to 40 percent. Thirty million American adults are sufficiently illiterate to have great difficulty functioning in our society, while another 51 million function, but not proficiently—a total of 81 million people, one-third of our population. Functional illiteracy costs the U.S. over \$25 billion a year in lost productivity, accidents in the workplace, damage to military equipment, and in support for the unemployed, imprisoned and disenchanted. The nation can no longer afford the waste of such enormous human potential.

ESSENTIAL FIRST STEPS

Rekindling American economic growth and living standards is a challenge far greater and more important than any we have faced since World War II. Great economic challenges can bring people together, but history has shown very well that it can also set them at odds. Democrats believe that America must begin now to address the challenge of growth in the new competitive world environment.

Most urgently needed is to acknowledge the challenge and to make competitiveness the national priority. However, while most Americans are uneasy about their jobs, the economy, and their children's future, they have been confused by the constant barrage of confident, complacent rhetoric from the Administration. The President's popularity and his refusal to provide national leadership in this issue has forestalled a national commitment and undermined the initiative of individuals and firms. Our companies are being forced to export jobs overseas, the middle class living standard is declining, and Americans are not learning the new skills they need to compete. Opportunities are being lost, debts are accumulating.

TRADE AND EXCHANGE RATES

For too long, competitiveness has been discussed strictly in terms of trade and exchange rates. Certainly it is essential that the U.S. and our trading partners conduct our business on a "level playing field," that we play by the same rules. Competitiveness requires fair trade and exchange rates. American workers and firms cannot be expected to suffer indefinitely from the naive Republican ideology that pretends that foreign governments and firms are always free traders or will become so if we simply ask them. In fact, very little world trade is free and foreign interests are reluctant to change their self-serving behavior unless we act to bring about change.

Senate Democrats have long sought a comprehensive trade policy to avoid the ad-hoc protectionism of the Republican Administration. We have introduced numerous such bills, and a year ago, Democrats, working with Republicans, drafted a bi-partisan trade bill. The House of Representatives has recently passed such a bill. Yet the Republican majority refuses to act. We urge Senate Republicans to join with us to send a comprehensive trade bill to the President this year and to insist on a policy of fair trade.

Our decline in competitiveness has also been blamed on the strong dollar. Certainly at some extremely weak exchange rate, the U.S. trade deficit would be eliminated. We are encouraged that after three years of Democratic urging the Administration this past year took action on the exchange rate. We urge a continued effort and greater cooperation by the State Department, the White House, and other executive agencies.

Unfortunately, a weaker dollar also drastically undercuts the U.S. living standard and our ability to exert economic leadership. A more realistic exchange rate—while necessary—will not make us more competitive. In many ways, a weaker dollar only makes the challenge more immediate.

PRODUCTIVITY GROWTH: THE CENTRAL CHALLENGE OF COMPETITIVENESS

The central competitive challenge is to strengthen our economy to the point where we can sustain a strong dollar and higher living standards. This calls for a renewed national focus and a commitment to a growth in productivity. Much of the innovation America needs will come from the unmatched and diverse ingenuity, talents, and muscle of each individual citizen and firm. Public policy's role is to support private initiatives by providing information on the technological developments of our foreign competitors, by supporting excellence in U.S. technology and education, and by encouraging a more mobile workforce. We must also create a single independent body to cut through the governmental bureaucracy and help bring those traditional adversaries—management and labor—together to address the competitiveness challenge.

AN ACTION AGENDA

Democrats believe that valuable time and opportunities are being wasted in fruitless searches for a single, sweeping solution to the competitiveness challenge. The time has come for do-able action. Most of the legislation which we are introducing is not new, but has been recommended time and again by panels of leaders from business, labor, academia and government.

Our recommendations will help to cast the competitiveness challenge in the proper perspective and set us on a path toward meeting the challenge and assuring our future economic growth.

Our agenda:

1. We must provide better and much more broadly disseminated information on the rapid changes in technologies occurring abroad.
2. We must support excellence in the development of U.S. technology.

3. We must strive for excellence in education and training for all Americans.

4. We must provide the most productive mobility possible for our workers between jobs and entering and leaving the workforce.

5. We must establish an independent Council on Industrial Competitiveness to provide an on-going forum where business, labor, academia, government, and public interest groups can work together to meet the competitiveness challenge.

I. AMERICANS MUST BE WELL INFORMED ABOUT FOREIGN TECHNOLOGICAL DEVELOPMENTS

A. Establish Within the Patent Office a New Office of Technology Assessment, Forecast and Outreach

Technological change is occurring worldwide at an exceptionally rapid rate. There has been an enormous increase in recent years in both the quality and quantity of foreign technological development and application. The Business-Higher Education Forum and other groups have pointed out that in the face of such rapid technological change, the U.S. should make better use of information available through patent documentation.

A patent obtained in the United States conveys no protection outside this country, and vice versa. Therefore it is common in this age of the international marketplace for inventors to obtain patents in more than one country. As a result, significant foreign inventions are usually patented in the U.S., because it is such an important market. Therefore U.S. patent activity mirrors not only the U.S. technological effort but, to a large extent, the foreign effort as well.

In 1961, only 17 percent of U.S. patents were issued to residents of foreign countries. In 1985 foreign residents held over 43 percent of the 116,500 new patents. One of the few quantitative indicators of inventive activity available to us are patent counts and the detailed information contained in the patent documents themselves. Data are not usable in raw form. They must be organized, computer programs must be designed and written, and access procedures must be developed.

For the last decade, a small office within the Patent Office, the Office of Technology Assessment and Forecast, has made some of these data available to researchers and analysts. OTAF has made the study of patent statistics in the modern age possible and provided tools for tracking what is happening in specific technologies and to the U.S. competitive position in them. But the Administration last year closed the Office.

Senate Democrats propose to re-establish the OTAF within the Patents and Trademarks Office with an operating budget in 1987 of \$2 million. It will be renamed the Office of Technology Assessment, Forecast and Outreach. Its mission will be to:

- A. Identify emerging areas of technology worldwide.
- B. Analyze the sources of new technology.
- C. Record ownership of U.S. patents by country or firm.
- D. Track trends in patent behavior worldwide.

E. Facilitate regular review by relevant Industry Sector Advisory Committees.

F. And assure broad private sector knowledge of and access to findings.

B. Establish within the Department of Commerce a new on-site function for monitoring developments in foreign science, and technology

Easy access to U.S. scientific and technical literature and know-how is one reason for the present economic success of Japan, Germany, Korea, Taiwan and others. These nations teach English, and their brightest scientists and engineers often have no difficulty communicating with our professional community or reading our literature. These and many other nations extensively translate and disseminate technical materials from the U.S. for the commercial benefit of their firms and workers.

Now that other nations are engaged in path-breaking work in telecommunications equipment, biotechnology, and computer integrated manufacturing, it is essential that we know what they are doing. The U.S. Government has the unique capability and responsibility to provide us with this vital tool of global competition. Yet the U.S. does very little in this area. The Foreign Broadcast Information Service and the National Technical Information Service provide some foreign translation. But they maintain virtually no technical on-the-ground presence.

Senate Democrats propose \$5 million for the Department of Commerce to establish an Office of Technology Assessment within U.S. embassies in five countries identified for their current level of technological development. Personnel of the OTA will participate in the host country's scientific and technical community and issue a monthly catalogue of activities. The OTA will also, for and in coordination with the National Technical Information Service and other relevant agencies, abstract and translate important articles from the host country's scientific and technical journals.

Finally, the OTA will prepare an annual analysis of technological trends in the five host countries, and a directory listing government and private sources of information about scientific and engineering developments. This proposal builds on S. 1073, passed in the Senate last November, appropriating an additional \$1 million to the Department of Commerce to acquire, translate, and distribute Japanese scientific and technical information to U.S. businesses and researchers. That bill directed the Department to establish an office in Japan to gather and monitor this material. The bill also called for the preparation of annual analysis of Japanese technological trends and for the publication of a directory listing government and private sources of information about Japanese scientific and engineering literature.

II. TECHNOLOGICAL EXCELLENCE

The President's Commission on Industrial Competitiveness noted that "perhaps the most glaring deficiency in America's technological capabilities has been our failure to devote enough attention to manufacturing or process technology." While civilian R&D's share

of the Federal research dollar continues to fall (defense is now 72 percent of the FY 1986 budget), the Japanese and others continue to invest heavily in industrially-oriented basic research.

A. Expand and diversify the engineering research centers and cooperative engineering centers programs of NSF

The U.S. particularly under-invests in the most valuable kind of research—joint industry-university cooperative centers. These centers perform basic research useful to industry, train new scientists and engineers, and quickly transfer university work to the private sector. The Stevenson-Wydler Technology Innovation Act of 1980 called for the appropriation of \$60 million annually to create cooperative, industry-university centers for this purpose. The Reagan Administration has never implemented this provision, and it pocket-vetoed a similar 1984 bill that would have created Department of Commerce-supported centers.

The National Science Foundation has made a modest but very successful beginning in this area, however, in its new Engineering Research Centers. ERCs are now a proven means to facilitate the development of applied science. They are based in universities, focus on problems of industrial interest, and include private sector participation.

ERCs are designed to promote research that will ultimately support U.S. industrial competitiveness. Funded programs include research ranging from robotics and manufacturing automation to biotechnology. Advances as a result of these efforts will raise the technological level of relevant industries and help them to more effectively design and deliver products and services to their markets.

Engineering Research Centers have a number of practical advantages which make them an outstanding device for applying government leverage to the process of technological innovation. ERCs are university-based, but emphasize commercially important fields where results can be exploited more rapidly. Analysis of the Federal Government's \$6-7 billion annual investment in university R&D shows little correlation with the fields important to the civilian companies that are doing the most to create jobs, enhance productivity and make us more competitive. In contrast, fields selected for funding under the ERC program are at the leading edge of broad technology areas with commercial potential.

ERC promises to encourage the flow of both knowledge and experience between academia and private firms. A greater interaction between these research environments is badly needed if the U.S. is to remain commercially competitive in high-technology products and services. Results of ERC research is made accessible to U.S. enterprise relatively quickly because of their direct participation. Such intense industry interaction is the most effective mode of technology transfer.

The ERC program is currently funded far below potential. In 1985, the NSF received 142 proposals but could fund only six. In 1986, it received 104 proposals, funding only five.

Senate Democrats propose to double the funding for NSF's Engineering Research Center program. Funding for FY'86 was \$23 million. This would be increased to \$46 million to double the number of centers—from 11 to 22. This would still allow NSF to fund only a

small portion of the 104 applications for new Centers received last year. Participation in all Centers could be limited to U.S.-based firms.

B. Establish 500 graduate fellowships in science and engineering

Shortages of scientists and engineers with advanced degrees in science and engineering have been identified by both industry and education as a key barrier to technological development. In 1983, there were approximately 1600 budgeted, full-time faculty positions vacant at the 292 U.S. engineering schools, a shortage rate of almost 25 percent. More than twice as many engineers graduate per capita from Japanese universities than from U.S. schools of engineering. Over 55 percent of all doctoral engineering degrees awarded in the U.S. since 1983 have been to foreign students, almost half of which return to their home countries, and the percentage has been accelerating rapidly.

Yet, very few U.S. students receive foreign doctorates in science or engineering. Since 1980, an average of 12 U.S. engineering doctoral recipients study abroad each year. Since people, not paper, transfer technology, this limits our knowledge of foreign developments and undermines our ability to compete.

Senate Democrats propose to establish a new program within the National Science Foundation to be known as the "Scientific Research Fellows Program." The Program will award 500 fellowships in each of the next five years. NSF will identify specific industries, technologies and foreign countries in which American leadership in efficiency, productivity, or international competitiveness is being most effectively challenged.

The NSF will give preference to fellowship applicants whose qualifications and intended course of study promise to meet identified needs. It will give special consideration to applicants who demonstrate competence in the foreign countries and who intend to do a minimum of two years of research in the country.

Fellowships awarded under the program will be otherwise identical to those under the current NSF Graduate Fellowship Program, except that in the case of foreign study, additional monies will be made available for travel and advanced language study.

C. Establish a facilities fund within the NSF

One of the most severe limits on the research and development capabilities of America's universities, and on faculty recruiting, has been the rapid deterioration of its R&D infrastructure. Federal obligations to universities for R&D plant decreased by 90 percent in constant dollars between 1966 and 1983. One-half of higher education's physical plant—research laboratories, equipment, libraries and classrooms—is more than 25 years old. One-quarter of it was built before World War II.

The NSF has found that 20 percent of university scientific equipment is obsolete and no longer used; 72 percent of polled department heads said that lack of adequate equipment is preventing critical experiments. Surveys indicate that because of this, universities currently are able to meet only about one-half of their accumulated research needs. It is estimated that it would cost between

\$5-10 billion to replace and renew higher education's physical plant.

Senate Democrats propose to assist U.S. universities to restore their infrastructures by establishing a facilities fund within NSF with an annual budget of \$250 million for each of the next 10 years.

To ensure excellence:

A. All proposals submitted to this facilities fund will be subject to peer review within the scientific or technological community involved, and

B. All awards from the fund will be made on a 50/50 matching basis with non-federal funding.

III. ASSURING EXCELLENCE IN AMERICAN EDUCATION AND TRAINING

Our ability to compete in a world economy begins with excellence in education. Yet the future of education in America is uncertain. In the past few years numerous education reports have called for dramatic changes. Many states have taken up the challenge to reform their systems only to find themselves faced with a severe shortage of qualified teachers.

With student enrollment multiplying as the children of the baby boomers enter school, half of all current teachers now plan to leave their jobs by 1992. As early as next year, 171,000 new teachers will be needed, and only 142,000 new teaching graduates will be available. By 1992, 1.3 million new teachers will be needed. Yet between 1973 and 1983 the number of teacher graduates dropped 53 percent, enrollment in teacher education programs decreased by a third, and persons newly admitted into teacher education decreased by 44 percent. Compounding the problem is the dramatic increase in the minority student population, while the proportion of minority teachers declines.

The federal government should provide incentives to encourage students to pursue teaching degrees, while setting certain preconditions for excellence. The recent report released by the Carnegie Forum on Education and the Economy calls for a refocus of all federal financial aid for the preparation of teachers on the graduate level and it supports the masters degree in teaching with a bachelors degree in an academic discipline.

A. Future Teacher Training Corps Act

Senate Democrats propose to fund a graduate scholarship program to be administered by state educational agencies if each meets certain preconditions for quality. To receive funds, a candidate must be enrolled in a post-baccalaureate course of study of not more than two years leading to teacher certification. For one year of assistance the payback is to teach for three years in either a subject matter or geographic shortage area.

If the recipient teaches in an area that meets both conditions, the payback is two years. If the recipient receives two years of assistance and serves in either a subject matter or geographic shortage area the payback is four years. If the recipient meets both conditions, the payback is three years. The scholarship is \$5,000 per academic year. The legislation calls for 5,000 awards per year.

B. Expand Federal funding to develop quality instructional software and videotapes on basic skills and secondary education, and train teachers in all fields to use them

New technologies are fast becoming a fact of everyday life worldwide. They are making many of our traditional skills and methods obsolete even as they are opening-up an enormous range of opportunities. To meet the competitive challenges of the future we must invest in and use the best available technology to support excellence in education and training for all Americans.

Efforts are underway to include the new technologies in America's schools. In 1985, 25 states and the District of Columbia mandated either that students must develop computer literacy, or that schools must provide computer courses. In that same year, over one million computers were in use in elementary and secondary schools in the United States—a fourfold increase in two years. Approximately 15 million students and 500,000 teachers used computers for instructional programs during the 1984-85 school year. Ninety percent of U.S. school children attended schools that had at least one computer.

A similar rapid growth has occurred in the educational use of video technology (including videotapes and videodiscs). For example, between 1982-3 and 1984-5, the percentage of schools with video technology more than doubled from 31 percent to 69 percent.

Despite such rapid growth, student access to the new technologies in schools varies greatly. According to a 1986 Congressional Research Service report, variations in student access are related to such factors as grade level, the family income characteristics of schools, and school size.

Teacher access to and familiarity with computers also differs substantially. A 1985 Johns Hopkins University survey found that only about 25 percent of all teachers used computers with their students. In high schools, 27 percent of the teachers who used computers with students were considered "expert" in various aspects of computer knowledge. Only 21 percent of middle school teachers and 10 percent of elementary school teachers were expert. These percentages are viewed as quite low.

Research also uncovers wide variations in conditions under which the new technologies are used in schools. The Johns Hopkins survey found that over 67 percent of classroom use of computers is for either instructional drill-and-practice or programing. More creative activities, such as discovery learning and problem solving, constitute only about 14 percent of classroom use.

Effective educational use of the new technologies is not only limited by wide variations in access, teacher competence, and use, but also by characteristics of new technology—high research and development costs, continual technological changes, and fragmentation among manufacturers and distributors. Consequently, schools frequently are burdened by hardware that cannot use the same software. And software, tapes, and discs suitable for educational purposes are of limited variety because of high development costs.

All these factors combine for highly uneven benefits for students. Student benefits have been found to depend on such factors as teacher skill, the way in which the technologies are used, the

amount of student use, the subject matter, the level of instruction, and the technology's characteristics and capabilities. An industry group, after analyzing research on the effectiveness of classroom computer use, concluded that "computer-assisted learning can increase student achievement in certain areas when quality courseware is used, and when the programs are planned and implemented in an effective manner by school staff." The research also shows that computer instruction is not effective when the conditions for good implementation are inadequate and nonexistent.

The National Task Force on Educational Technology, which was established by former Secretary Terrel H. Bell, recently submitted its report to Secretary Bennett. This report identified several problems in the implementation of educational technology programs. These included lack of planning, inadequate or nonexistent teacher training, inadequate software, and inequitable distribution of resources.

The Task Force also made recommendations. It recommended the development of pre-service and in-service programs to prepare teachers to use technology optimally for instruction and instructional management. It recommended the initiation of a broadly based research and development effort, especially related to software. The Task Force also recommended the establishment of mechanisms for evaluating software and facilitating rapid dissemination of successful practices.

In summary, current data indicate that teacher knowledge and effective classroom use of computers and video technology are not keeping up with the explosive growth of such technology in the schools. Overcoming these shortcomings would not only improve the overall education of American children, but also give them a strong working knowledge of the most important tools of the Information Age. A program of teacher training and research and development is essential to the successful use of educational technology in our nation's classrooms.

Senate Democrats propose to expand Federal funding to identify, develop and disseminate information about quality instructional computer software and videotapes geared to functional competency in elementary and secondary education. The program would aim to train teachers in all fields in the capabilities of quality computer software and videotapes.

The Secretary of Education and the National Science Foundation will help state and local educational agencies to acquire suitable instructional computer software and videotapes. The National Institute of Education will:

- (a) evaluate available instructional videotapes, computer hardware and software in terms of their usefulness in the classroom;
- (b) disseminate the results of such evaluation; and
- (c) develop model instructional videotapes and computer software and make such model materials (and their design) available to videotape and software producers, distributors, teachers and school administrators.

The program would earmark \$20 million a year for 4 years to the National Science Foundation to establish teacher-training institutes.

IV. WORKFORCE MOBILITY

More than two million workers enter or re-enter the American workforce each year. Millions of others change jobs as firms grow and decline, start up and close down. The mobility of the U.S. workforce has long been a major asset to our economy, lending the flexibility needed to adapt to change. The quickening and competitive pace of technological and economic change now requires even greater labor mobility. Today, men and women who work typically change jobs four or more times during their careers—more than twice as often as a generation ago.

A. Provide the States with additional resources to assist the unemployed to become fully productive members of society

An important element of labor market mobility is the ease with which the chronically unemployed can move from a unsubsidized private sector employment. Individuals participating in the federal AFDC program are particularly hard to employ. These are single heads of households, a significant number of whom are women with dependent children. Fifty percent of them have not finished high school, and many of those who have often lack the work-related skills they need for gainful employment. To make matters worse, the responsibilities of heading a family and raising children often prohibit them from accepting what employment may be available, or from obtaining the training they need to become independent, productive members of the workforce.

Individual AFDC participants and their families are not the only ones who suffer from this situation. State and federal social service resources are strained, individual human potential is lost forever, whole communities and neighborhoods grow cynical and without hope, and employers suffer shortages of semi-skilled and dependable employees.

More than 25 states have responded to this problem by establishing comprehensive training programs for welfare recipients. Funded under the federal Work Incentive (WIN) Program, these programs have helped dependent people move into productive private sector jobs, given businesses trained workers, helped government by reducing long-term caseloads and costs, and opened up new opportunities for many individuals.

Senate Democrats propose requiring each state to educate, train, and find jobs for AFDC recipients. All able-bodied welfare recipients, except the minority exempt under current law, would participate in the program. Our bill also requires the states to provide day care for working mothers, and transportation and other support for program participants.

Under the provisions of WORC, states will have substantial flexibility to design employment and training programs best suited to their welfare population. The state will assess the employment prospects of each participant and assign them to any of the education and training programs now authorized under current law. The states would be encouraged to use the services under the Job Training Partnership Act, employment services, and vocational education to train and place participants.

The bill would retain state flexibility. Beyond federally specified minimum participation requirements, Governors will have wide options. They can mandate a community work type of program—such as now exists in California—or a program such as ET Choices in Massachusetts, which relies more heavily on skills training. Another option would be a combination of several such features. Since state economies, welfare populations, and political philosophies vary widely across the nation, this flexibility would give states the opportunity to design a program tailored specifically to the needs of their residents.

The Congressional Budget Office has estimated the initial cost of this legislation at \$95 million in fiscal year 1987 over current services. This estimate, however, does not reflect potential cost savings of reduced AFDC, food stamps, and Medicaid benefits. If savings in the states are any guide, we can anticipate very significant net savings over program costs for a national WROC Program. We can certainly anticipate a more productive economy, growing through the work and self-respect of more of our people.

B. State Job Bank Assistance Act of 1986

The Federal Employment Service operates 2,600 local offices that are responsible for worker testing, counseling and job placement services. The system is severely under-used, however, with only a small portion of all jobs ever listed, with half of those that are listed minimum-wage jobs that last for less than six months. Only 7 percent of job seekers receive counseling, only 2 percent receive training, and less than 25 percent are eventually employed. The failure of this system can be traced primarily to a lack of resources. Fewer than half the states have had sufficient funds to computerize their job banks. The Department of Labor still manages its interstate exchanges of job information by having data mailed to Albany, New York, where it is sorted and then redistributed by mail.

Senate Democrats propose to earmark sufficient funds for the Department of Labor to develop and implement computerized job bank systems throughout the Employment Service System. Anticipated funding is for \$50 million. The completion and full implementation of this program, by improving the quality and availability of labor market information, will be a vital first step in assuring efficient mobility for American Workers.

C. Examine the merits and the costs of adopting a system of portable personal pensions for all Americans.

One of the important barriers to labor full force mobility is our current pension system, which is tied to the job rather than to the worker. Currently, our aging work force avoids job changes to protect pension rights, and employers avoid older, more experienced workers to reduce their pension costs. There are those who believe, however, that pension considerations limit inefficient "job-hopping" and promote productive, longer-term employment relationships. Only about half of American workers are employed by firms offering pension plans, however, and few of those workers remain with the same firm long enough to qualify for a pension. The widespread lack of pensions for American workers adds to insecurity at

a time when turbulent and rapid change must be faced with confidence.

Senate Democrats propose funding \$5 million for the Secretary of Labor to examine the feasibility and the competitive effect of providing portable pensions and health benefits to all American workers. Such a comprehensive portable personal pension system would tie pensions to the workers rather than the job, allowing workers to transfer jobs, enter and leave the work force, all the while accruing pension rights. Portable personal pensions would permit workers to build up equities throughout their working careers, even if they changed occupations, employers or jobs.

WE NEED A SINGLE INDEPENDENT BODY TO PROVIDE AN ON-GOING FORUM FOR NATIONAL LEADERSHIP AND COOPERATION TO ADDRESS THE COMPETITIVENESS CHALLENGE.

Our governmental process, featuring separation of powers and multiple checks and balances, was designed essentially to assure individual freedom and to limit government power. While none of us would change that system in any fundamental way, we all recognize that our system, coupled with the diversity of our nation, makes the governing process perennially difficult. The current problems of the budget, like the energy problems of the 1970s, remind us how formidable the challenge of framing coherent policies is in the absence of a clear crisis.

Our system features, more often than not, conflict between the Executive and Congress, and adversarial relations between "the government" and the private sector. That adversarial tradition makes it hard to formulate coherent, far-sighted policies. When contrasted with Japan, with its tradition of consensus building, close relations between business and government, and its parliamentary system, the competitive disadvantages are significant.

The incoherence of our approach to trade and industrial problems has been described many times. The President's Commission on Industrial Competitiveness reported that there are 2800 public/private sector groups with an official advisory role to the federal government. We cannot continue drifting while other nations chart tight courses. We need a mechanism for formulating national strategies to meet the competitive challenge, and a forum for debating those strategies.

There is a clear and fundamental difference between central planning, which is unworkable and unacceptable, and an effort to think coherently about policies and to build a consistent trade and industrial strategy. As Henry Ford once said, "there is a difference between a planned society and a planning society." In a very fundamental way, our competitive position has been crippled by the failure of our government to "plan" for the nation's future: to think about the competition we face, the investments we need, the strategies we should pursue.

THE COUNCIL ON INDUSTRIAL COMPETITIVENESS

Senate Democrats propose the creation of a Council on Industrial Competitiveness. This 16-member Council would be an independent entity with membership from business, labor, government, acade-

nia and public interest groups. It would provide a forum in which these groups could work cooperatively to develop a long-term competitiveness strategy for our economy and for specific industries and sectors. The Council would also analyze the impact of existing federal programs and policies affecting industry and recommend policy changes to coordinate and redirect these programs into an overall strategy.

The duties of the Council would include:

1. Reviewing legislative and executive policies which affect industrial competitiveness.
2. Collecting and analyzing data on current and future economic trends and market opportunities.
3. Establishing industry sub-councils to develop long-term strategies for individual sectors.
4. Reporting annually to the President and Congress on ways to increase American competitiveness in world markets.
5. Building a national consensus around strategies for fostering the growth and competitiveness of American industry.
6. Examining all international agreements on foreign trade agreed to by the United States and monitoring the effect of imports on U.S. industries.

The 16 members of the Council would be evenly divided among business, labor, academia, public interest groups and government. The anticipated funding level would be \$25 million for the first year.

As with any investment, all these initiatives to provide Americans with the tools they need to compete have a cost—about \$525 million per year. The return on these investments, however, will pay for itself many times over with increased economic growth, saved jobs and continued high American living standards.

The economic security of the United States—and indeed the world—is at risk. We cannot afford the continued decline in our living standard, massive accumulation of debt, and further erosion of the competitive vitality of our economy. We must go forward as a nation united to meet the new realities of international competitiveness. In taking the first steps, Democrats continue to provide leadership to assure all Americans and their children the opportunity for a secure and prosperous future.